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Shadow Capital at Myanmar’s Margins: Shwe Kokko New City and its Predecessors

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EXECUTIVE SUMMARY

- The “New City” of Shwe Kokko on the Myanmar-Thailand border has raised eyebrows as a hub for online gambling, despite being touted as a central part of China’s Belt and Road Initiative (BRI) in Southeast Asia.
- Shwe Kokko’s unique circumstances shed light on how the online gambling industry finds new ways to utilise disaggregated borderlands sovereignties, how it carries out advertising, and what new financial technologies are used to evade regulatory attempts from states.
- Shwe Kokko’s rapid rise is less about Chinese BRI expansionism fuelling conflict and destabilising a fledgling democracy, and more about rapacious capitalism seeking new spaces to expand into and exploit. Disaggregated sovereignty is endemic to the borderlands, making it extremely appealing to shadow capital.
- Rather than taking the easier route of blaming a phenomenon like Shwe Kokko on China’s BRI, meaningful political and economic integration that bring sustainable development to Myanmar’s peripheral regions is needed.

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INTRODUCTION

In early 2020, the “New City” of Shwe Kokko on the Myanmar-Thailand border in Karen State began attracting international attention as an emerging “Chinatown”. Observers in Yangon were intrigued by the capital investment into and the rapid growth of this “Special Economic Zone”, to which thousands of Chinese workers and visitors flocked via Thailand. Two years earlier, large luxury residential complexes, shopping centres, and workers’ dormitories had been erected on a remote plot of previous farmland on the banks of the Moei River. Hotels, Chinese restaurants, warehouses, and small shops sprung up rapidly. But distinctive glitzy casinos along the riverbanks made it clear that the New City was to also function as a gambling hub.¹ And while tourists and visitors were part of the clientele, Shwe Kokko housed a growing number of online gambling enterprises, with thousands of Chinese staffers brought in to service the hotlines.

Early reports about the new “Chinatown” were shrouded in rumour and secrecy. Even in early 2019, observers were unclear as to the purpose of the town. What was known was that Shwe Kokko relied on land use permissions from a Border Guard Force (BGF) in Karen State led by Colonel Saw Chit Thu, and aligned with the Myanmar military (*Tatmadaw*). In 2020, an exuberant promotional video touted Shwe Kokko as a “Smart City” and a “flagship project” of China’s Belt and Road Initiative, and there were plans to see it become the Silicon Valley of Myanmar.² The video was produced by the Hongkong-registered Yatai International Holdings Group responsible for the project, which boasted a USD 15 billion investment in the 120 km² area. Yatai’s promotional video, complete with grandiose narration and futuristic visuals, touted potential global connectivity along a proposed railroad from Yangon to Bangkok, and a planned road from Kunming to Bangkok. With an “International Film and Television City”, water park, golf courses, and international festivals, Yatai predicted 800,000 to a million visitors annually.³

Construction began in early 2017. According to Yatai’s promotional materials, there would be five zones in the New City—a technology district, an entertainment and tourism district, a culture district, a business and commerce district, and an ecological and agriculture district. It turned out that the Karen BGF under Saw Chit Thu had begun in early 2017 to confiscate land from villagers, with 50,000 baht (US\$1,600) per acre as compensation. By mid-2018, an estimated 10,000 Chinese construction workers were present in the New City, causing growing concern among Karen inhabitants in the area.⁴ Yatai had in fact received permission in September 2018 from the Myanmar Investment Commission for the construction of a luxury residential estate, but at USD 15 billion, the project plans and ongoing construction were far larger than approved. Development expanded south beyond the initially agreed boundaries, along the Moei river.⁵

Yatai also brought in BCB Blockchain, a Singapore company invested in building smart cities across Southeast Asia, and with it Fincy, a fintech app, to provide the payment infrastructure for the city’s residents which would allow digital payments across a variety of currencies.⁶ Fincy would help ease payments for services and the transfer of monies between customers and vendors of all kinds. Rumours in 2019 made claims of Yatai’s well-placed connections in Beijing, but these were at best educated guesses.⁷ By late 2019, it had become clear to Karen civil society groups that despite the industrial technology hubs, incubators, and innovation of the Smart City, online gambling was the project’s primary

enterprise.⁸ Blockchain technology seemed perfect for allowing movements of large sums of money across borders, bypassing traditional banking systems.

CHARGES AND ACCUSATIONS

The Karen State government launched its own investigations in mid-2019, finding that the project developments had exceeded their permitted limits. BGF leader Chit Thu quickly announced a temporary pause, but construction allegedly continued unfettered.⁹ In mid-2020, it was revealed that large construction contracts had been agreed to with large Chinese state-owned enterprises (SOEs), including the Metallurgical Company of China International (MCCI) and the China Railway 20th Bureau Group.¹⁰

In March 2020, a report “Gambling Away Our Lands” prepared by the Karen Peace Support Network charged that Yatai New City was simply a front for online gambling run by Chinese syndicates relocating from Cambodia following China’s crackdown there. It cited advertisements run by Yatai in Cambodia’s casino town, Sihanoukville, targeting Chinese gamblers and investors driven out by law enforcement.¹¹

The US Congress-funded United States Institute of Peace (USIP) followed with a special report in July 2020, charging that Shwe Kokko, along with two other projects in Karen State, Huanya and Saixigang, was masterminded by “complex transnational networks of Chinese investors, forced out of Cambodia for illegal gambling activities”.¹² The online gambling enterprises, land grabs, and partnerships with armed groups, it asserted, would have dire consequences.

The project, USIP warned,

promises to draw a large volume of Chinese into the country and to further destabilize the border areas, delaying peace far into the future, expanding the country’s unregulated armed economy, and ultimately forfeiting Myanmar’s ability to secure its national sovereignty.¹³

The USIP alarm went on, attributing blame to the Chinese government and the BRI, suggesting that

the Karen projects provide a stark illustration of how criminal actors, including complex networks of PRC citizens and ethnic Chinese with citizenship in other countries, have used the Belt and Road Initiative to advance illicit and even dangerous activities in close collusion with Chinese officials and influential quasi-governmental agencies. Continued failure to take action against these endeavors raise serious questions about the real interests and incentives of the BRI.¹⁴

This attribution of culpability to China was precisely what a Chinese observer had pre-empted a month before, saying that such private “investments are outside China’s jurisdiction and China should not be held accountable for their existence.”¹⁵ Chinese companies and their affiliates, the observer said, were at most responsible for failures of due diligence. Meanwhile, details about She Zhijiang, the Yatai chairman, began emerging in

the press, detailing rumours of his different companies and ties to Chinese SOEs, military, and government.¹⁶

The Myanmar government launched an investigation into Shwe Kokko activities in early 2020, and China's Ministry of Foreign Affairs rejected any links between the project and the BRI, pledging support for Myanmar's investigations at the same time.¹⁷ Fincy pulled out of the venture days later.¹⁸ The Myanmar media outlet *Irrawaddy* joined in the chorus, demanding that the government investigate Shwe Kokko: "[T]he fact that shady Chinese and local armed groups have been able to establish a gambling megaproject is mind-boggling. The project is a direct violation of Myanmar's sovereignty".¹⁹ The outcomes of any investigations are thus far unclear.

A THIRD-GENERATION ONLINE GAMBLING ENTERPRISE

The emergence of yet another controversial borderland economic enclave is far from novel in mainland Southeast Asia, and highlighting the historical and geopolitical contexts is important in tempering heightened alarm around lawlessness. Since the early 2000s, casino towns have arisen at Monglar, Laukkai (Kokang), and Pangkham (Wa Region) on the Myanmar-China border, Boten Golden City on the China-Laos border, and the Kings Roman Casino on the Laos-Thailand border. In addition, the variety of casino centres in the Philippines and Cambodia have experienced various successes and declines over the last decade. Three features of the Shwe Kokko project however, stand out, shedding light on how shadow economies, particularly the online gambling industry, are responding to regulatory attempts from states.

First, the Yatai-built New City is an unintended consequence of Chinese attempts to crackdown on the \$24 billion-dollar online gambling industry. The choice of Shwe Kokko in Myanmar, an area run by a BGF and not directly controlled by the Myanmar government, seems an attempt to sidestep the vulnerability of national governments to Chinese pressure. Shwe Kokko is in fact a third-generation attempt at such evasion.

The first generation of extraterritorial casinos were all located directly on China's borders. They relied mainly on drawing Chinese tourists across the border to gamble in person in the casinos. These were the casinos in Myanmar—Kokang region, Wa region, and Monglar—and the casino town of Boten in northern Laos. While proximity of these centres to the Chinese border made possible short cross-border tourist hops for gambling, it also meant the towns relied on China for internet and telecommunications infrastructure. They were subject to immigration enforcement that could easily close border crossings if criminality in the casino towns spiralled out of control. Internet services were in fact cut off in Monglar on various occasions,²⁰ and border crossings shut at Boten, leading to its decline in 2010.²¹

A second wave of casinos across Southeast Asia emerged largely in Cambodia and the Philippines from the early 2010s. These relied on the infrastructure and lax regulations in these countries to rapidly develop small towns, accommodate thousands of Chinese workers, and put high-volume gambling services online. But Cambodian Prime Minister Hun Sen banned online gaming in August 2019, orders likely given under Chinese pressure. In fact, China even deployed police on Cambodian soil to assist in law enforcement.²² Some

10,000 Chinese nationals left Sihanoukville that month, closing gambling businesses with them. In the Philippines, the Chinese government began crackdowns on online gambling even earlier, in 2017, though not thoroughly.²³ Yatai's She Zhijiang himself was convicted in a Chinese court in 2014 for an illegal lottery business operating from the Philippines that earned him 2.2 billion yuan (\$298 million) from Chinese online users.²⁴

Shwe Kokko is now the third generation in this infamous list, a bet hedged against the Chinese government's attempts to quash offshore gambling. Shadow capital now seeks better hiding places in the peripheries of Southeast Asia; it can no longer rely on paying off national governments through private arrangements—political pressure from China leaves the casinos with little room to hide. Capital turns now to autonomous enclaves, but not those adjacent to China. Other regions of Myanmar are ripe ground to find such enclaves, with dozens of militias operating across the country, each with varying degrees of autonomy.

The second distinctive feature of Shwe Kokko is that it seems to have brought together different elements of “disaggregated sovereignty” to evade state regulation.²⁵ Most importantly, it relies on the jurisdiction of the Karen BGF group, which bears allegiance to, yet has autonomy from, the *Tatmadaw* to negotiate its own deals. But the project also draws on the protection of its investors' and owners' Cambodian and Malaysian citizenship, the relative porosity of the Thai-Myanmar border for workers and visitors to enter and exit, and the technical expertise of Chinese construction SOEs.²⁶ Capital investment is moved through fintech, cryptocurrencies and blockchain ledgers, including a Singaporean mobile app, to disguise borderland transfers of money across currencies. Fintech in the borderlands is becoming more accessible through infrastructure development and connectivity; as these peripheries become more integrated into capital networks, transnational crime certainly utilise these platforms.

Disaggregated sovereignty is endemic to the borderlands, making it extremely appealing to shadow capital. It creates deniability—where authorities can easily reject responsibility for and knowledge of an entity operating outside or below their jurisdiction. They have less incentive to take action where the right payments have been made at lower levels. The Karen BGF appears to have an agreement with *Tatmadaw* commanders at various levels to allow the project to continue,²⁷ and also to allow the *Tatmadaw* and the Myanmar government to claim ignorance of the extent of the project. Of course, the claim would be true to some degree. In fact, in October 2020, three *Tatmadaw* commanders were subject to investigations following allegations that they had received bribes from the Karen BGF.²⁸

The third novel feature of the Shwe Kokko project is its spectacular online and social media presence, which might seem overblown for a town of the shadow economy in far-flung borderlands. But the stunning visuals of a “Smart City” and of technological hubs, of manufacturing and “entertainment zones”, are part of the need to create ambitious projects, boldly attracting investors and capital through social media promotion. The videos are surprisingly professional and visually enticing, creating a spectacle of luxury, and a narrative of technological futurism. In 2015, a similar development complex sprung up in the Wa Region of Myanmar on the Chinese border, touting luxury homes, hospitals, entertainment zones, and a free trade zone.²⁹ It turned out to be a scam; the projects were designed to attract more investment in a Ponzi scheme in China. Investors lost USD 7.6 billion.

The bold creation of spectacles is also meant to draw in gamblers and workers, and make possible connections with legitimate organisations. Connections with other organisations are part of the grandeur of namedropping. Admittedly, some of Yatai's "support from quasi-governmental associations" as reported by USIP is perhaps a matter of public namedropping from Chinese business acquaintances through personal relationships and reciprocity. It may not be evidence of a wider collusion of Chinese private businesses or tacit support from the Chinese government. Nonetheless, Shwe Kokko's extravagant means of generating publicity creates significant exposure in the process, triggering a quick backlash from local civil society groups and governments. Publicity and secrecy become a very difficult balance.

CONCLUSION

Shwe Kokko's rapid rise and potential decline is not a story of Chinese BRI expansionism fuelling conflict and destabilising a fledgling democracy, as some Western observers would have it. Rather, it is a tale of rapacious capitalism seeking new spaces to expand into and exploit, and new jurisdictions to operate from. Such capital, while often seen as part of conflict economies that require resolution, are actually forms of channel-building and integration of Myanmar's peripheries into larger political and economic regimes. The wider context of regional capital flows across the China and Southeast Asian borderlands is essential to making sense of Shwe Kokko.

Yet its negative consequences cannot be denied. Overwhelming influxes of visitors and foreign workers, land grabbing and dispossession, unsustainable construction and unregulated development, labour exploitation, and the various social ills associated with gambling enterprises inflict harm on communities. These are merely the symptoms, however, of the ongoing exclusion and marginalisation of Myanmar's ethnic minorities in peripheral areas. More equitable forms of community and infrastructure development, political arrangements that safeguard local autonomy, and integration into the national economy are necessary to reduce the spaces available for shadow capital to exploit. Rather than taking the easier route of blaming phenomena like Shwe Kokko on China's BRI, policymakers should search for ways in which meaningful political and economic integration can bring sustainable forms of development to Myanmar's peripheries.

¹ Lintner, Bertil. "A Chinatown mysteriously emerges in backwoods Myanmar." *Asia Times*, 1 Mar 2019, available at <<https://asiatimes.com/2019/03/a-chinatown-mysteriously-emerges-in-backwoods-myanmar/>>.

² Yatai International Holdings Group, Promotional video on "Shwe Kokko (Yatai) Special Economic Zone," available on <https://www.youtube.com/watch?v=8dudGWjqahg&ab_channel=GraceKing>.

³ Yatai International Holdings Group, "Shwe Kokko (Yatai) Special Economic Zone."

⁴ Karen Peace Support Network (KPSN). 2020. "Gambling Away Our Lands: Naypyidaw's 'Battlefields to Casinos' Strategy in Shwe Kokko." March 2020, available at <<https://progressivevoicemyanmar.org/wp-content/uploads/2020/03/Gambling-Away-Our-Lands-English.pdf>>, p14.

- ⁵ KPSN, “Gambling Away Our Lands”, p22, maps and satellite photography show the extent of encroachment.
- ⁶ Straits Times, “Singapore start-up’s app is key mode of payment in controversial Myanmar border development.” <<https://www.straitstimes.com/asia/se-asia/singapore-start-ups-app-is-key-mode-of-payment-in-controversial-myanmar-border>>.
- ⁷ Lintner. “A Chinatown mysteriously emerges in backwoods Myanmar.”
- ⁸ KPSN, “Gambling Away Our Lands”.
- ⁹ KPSN, “Gambling Away Our Lands”, p19
- ¹⁰ Nagemson, Andrew. “The Mystery Man Behind the Shwe Kokko Project.” *Frontier*, 7 Jul 2020, available at <<https://www.frontiermyanmar.net/en/the-mystery-man-behind-the-shwe-kokko-project/>>.
- ¹¹ KPSN, “Gambling Away Our Lands”, p32
- ¹² United States Institute of Peace (USIP), “Myanmar’s Casino Cities: The Role of China and Transnational Criminal Networks.” Special Report No. 471, Jul 2020, available at <<https://www.usip.org/index.php/publications/2020/07/myanmars-casino-cities-role-china-and-transnational-criminal-networks>>.
- ¹³ USIP “Myanmar’s Casino Cities,” p14.
- ¹⁴ USIP “Myanmar’s Casino Cities,” p 21
- ¹⁵ Yun Sun. “Examining the myth of ‘private Chinese investment’ in Kayin State.” *Frontier*, 25 Jun 2020, available at <<https://www.frontiermyanmar.net/en/examining-the-myth-of-private-chinese-investment-in-kayin-state/>>.
- ¹⁶ Nagemson, Andrew. “The Mystery Man Behind the Shwe Kokko Project.”
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- ¹⁸ Business Times. “Singapore fintech pulls out of Myanmar border city amid allegations.” 07 Oct 2020, available at <<https://www.businesstimes.com.sg/garage/singapore-fintech-pulls-out-of-myanmar-border-city-amid-allegations>>.
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- ²⁰ Rose, Charlotte. “Mong La: Myanmar’s Sin City.” *Myanmar Times*, 31 Jul 2015, available at <<https://www.mmmtimes.com/lifestyle/travel/15777-sin-city.html>>.
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- ²⁵ See for instance, Slaughter, Anne-Marie. 2004. “Disaggregated Sovereignty: Towards the Public Accountability of Global Government Networks.” *Government and Opposition* 39 (2): 159–90.
- ²⁶ *Caixin*. “A fugitive Chinese businessman’s high-profile bet in Myanmar.”
- ²⁷ KPSN. “Gambling Away Our Lands”, p5.

²⁸ Htet Naing Zaw, “Myanmar Military Probes Bribery Claims Against Officers Tied to Chinese-Backed Gambling Hub.” *Irrawaddy*, 9 Oct 2020, available at <<https://www.irrawaddy.com/news/burma/myanmar-military-probes-bribery-claims-officers-tied-china-backed-gambling-hub.html>>.

²⁹ Rauhala, Emily. “How a huge Chinese ‘Ponzi scheme’ lured investors.” *The Washington Post*, 8 Feb 2016, available at <https://www.washingtonpost.com/world/asia_pacific/how-a-huge-chinese-ponzi-scheme-lured-investors/2016/02/08/fcbae776-ca9c-11e5-b9ab-26591104bb19_story.html>.

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